

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7133

BILL NUMBER: HB 1190

NOTE PREPARED: Feb 19, 2009

BILL AMENDED:

SUBJECT: Military Service Deduction.

FIRST AUTHOR: Rep. Pearson

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill increases the military service income tax deduction from \$5,000 to \$7,500.

Effective Date: January 1, 2009 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the increased tax deduction. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: Summary - The bill would reduce Adjusted Gross Income (AGI) tax liabilities of individual taxpayers who receive military pay or retirement benefits, including surviving spouses. The potential revenue loss due to the increase in the deduction would be approximately \$4.2 M to \$4.5 M in FY 2010, and continue to increase by 2% to 2.5% per year. The deduction increase begins in tax year 2009, thus, the fiscal impact will commence in FY 2010. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

Background Information - In 2006, 38,440 taxpayer's claimed deductions totaling \$76.2 M for eligible military income. The maximum deduction at that time was \$2,000. P.L. 144-2007 increased the maximum deduction from \$2,000 to \$5,000, and provided a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized. These changes went into effect for tax years beginning in 2008. Based on these changes, the revenue loss from the current deduction limits is estimated to be approximately \$8.2 M to \$8.9 M in FY 2010. [The revenue losses attributable to this bill are provided in the table above and are in addition to the revenue losses which are occurring under the current deduction limits.]

Because the estimates provided above are based upon average pension benefits or salary, the actual revenue loss may be less than projected to the extent that some personnel receive less than the average.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a significant decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

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